

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 NEA-11 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

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STATE ALSO FOR T/IEP

E.O. 11652: NA

TAGS: EFIN, ENRG, JA

SUBJ: TRADING COMPANY'S VIEW OF SUPPLY SHORTAGES

REF: A. STATE 7324; B. TOKYO 631

SUMMARY: PART OF REPLY TO REFTEL A. END SUMMARY.

1. IN RESPONSE REFTEL A PARA 6(D), EMBASSY ATTEMPTED OBTAIN VIEWS RESEARCH ORGANIZATIONS RE SUPPLY SHORTAGES. APPARENTLY, HOWEVER, THESE ORGANIZATIONS ALSO RBEG KVBIORG DESPERATELY TO IDENTIFY AND ANALYZE LARGE NUMBER VARIABLES. NEVERTHELESS, IT BECOMING APPARENT THAT SUPPLIES OUTLOOK FOR CY 1974 NOT NEARLY AS BLEAK AS ORIGINALLY ENVISIONED AT HEIGHT OF ENERGY CRISIS. CONCERNS MAINLY FOCUS ON SUPPLY SITUATION THROUGH FIRST QUARTER CY 1974. FOR REST OF YEAR, MAJOR QUESTION RE SUPPLY SITUATION IS EFFECT OF HIGHER ENERGY/OIL PRICES OTHER THAN REFTEL B PROVIDES SOME ASSOCIATION THOUGHTS, WHILE DATA CONTAINED HEREIN REPRESENTS NEAR-TERM

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OUTLOOK OF VARIOUS OFFICIALS RESPONSIBLE FOR SPECIFIC INDUSTRIES

IN MITSUBISHI CORPORATION.

2. PETROCHEMICALS: AT LEAST IN SHORT TERM, SHORTAGES THREATENING THIS INDUSTRY INCLUDE OIL FOR FEEDSTOCK, AS WELL AS POWER AND FUEL CUTS. PRICES INCREASING RAPIDLY ON ITEMS SUCH AS OLEFIN GAS, NAPHTHA. NAPHTHA PRICE ROSE FOR 8,000 YEN/KILOLITER IN OCTOBER 1973, TO CURRENT LEVEL OF 12,000 YEN/K.L., WITH INCREASE TO AS MUCH AS 24,000 YEN/K.L. ANTICIPATED FOR FEBRUARY 1974. BASED ON ASSUMPTION OF CONTINUATION THROUGH CY 1974 OF PRESENT DEGREE OF FEEDSTOCK, FUEL AND POWER SHORTAGES (WHICH EMBASSY BELIEVES IS NOT VALID ASSUMPTION), PETROCHEMICAL PRODUCTION FORECAST REVISED DOWNWARD ROUGHLY 30 PERCENT. REPRESENTS DECREASE OF AT LEAST 20 PERCENT FROM ACTUAL 1973 PRODUCTION LEVELS. CUTS IN PRODUCTION MAY RESULT IN SHIFTS IN RAW MATERIALS ALLOCATION BY INDIVIDUAL COMPANIES TOWARD MOST PROFITABLE PRODUCT LINES AT EXPENSE OF LESS PROFITABLE ITEMS, SUCH AS CERTAIN SOLVENTS, DI-METHYL FORMAMIDE (DMF).

3. PLASTICS: VIRTUALLY ALL PLASTICS IN SHORT SUPPLY, WITH OVERALL OUTPUT DURING SECOND HALF 1973 DOWN ABOUT 10 PERCENT FROM FIRST HALF. SHORTAGES REFLECT NAPHTHA SHORTAGE, POWER CUTS,; PLANT EXPLOSIONS. ACUTE SHORTAGES IN LOW DENSITY POLYETHYLENE, POLYSTYRENE. POLYVINYL MONOMER AVAILABLE, BUT CANNOT BE CONVERTED TO PVC. 1974 DEMAND FORECAST AT SAME LEVEL AS 1973, PERHAPS SLIGHT DECREASE, REFLECTING RAPIDLY INCREASING PRICES. PRICES UP AS MUCH AS 50 PERCENT SINCE OCTOBER 1973.

4. PULP, PAPER, PAPERBOARD: NOVEMBER 1973 PAPER PRODUCTION LEVEL 705,000 TONS, 12 PERCENT OVER THAT OF NOVEMBER 1972, WITH DECEMBER 1973 OUTPUT ABOUT SAME OR SLIGHTLY LESS THAN NOVEMBER 1973. OUTPUT IN JANUARY AND FEBRUARY 1974 EXPECTED TO WORSEN PROGRESSIVELY, WITH DECREASES OF 5-10 PERCENT REFLECTING (A) SHORTAGES IN OIL NEEDED FOR STEAM, ELECTRICITY; (B) DELAYS IN ARRIVAL OF SHIPS WITH NEEDED WOOD CHIPS. SHORTAGES OF CHLORINE, CAUSTIC SODA, OTHER BLEACHING AGENTS, CHEMICALS, WILL ACT AS BOTTLENECK IN COMING MONTHS. RECENT INCREASE IN PAPER DEMAND LARGELY SCARE-BUYING, REFLECTING FEARS OF END USERS, MIDDLEMEN OF FUTURE (AND IMAGINED CURRENT) SHORTAGES. TIGHT MONEY SITUATION EXPECTED TO BRING STOCKS BACK LIMITED OFFICIAL USE

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INTO DISTRIBUTION PIPELINE WITHIN NEXT FEW MONTHS. 1974 DEMAND SEEN EQUAL TO THAT OF 1973, WITH PRICES NO HIGHER THAN PRESENT PEAK LEVELS.

5. OTHER SHORTAGES ACTING AS BOTTLENECKS INCLUDE CARBON BLACK, NEEDED FOR RUBBER PRODUCTION; COPPER FOR WIRING, AS WELL AS PLASTICS FOR WIRE COVERS, AFFECTING AUTOMOTIVE AND ELECTRONICS INDUSTRIES.

6. DISTRIBUTION OF GOODS IN SHORT SUPPLY APPARENTLY BEING BASED LARGELY ON BUYER-SELLER RELATIONSHIP, WITH SOME BUYERS SUFFERING LESS THAN 10 PERCENT SUPPLY DECREASE AND OTHERS AS MUCH AS 30 PERCENT DECREASE ON SAME PRODUCT. DECISION MAKING FOCUS REGARDING DOMESTIC VS. EXPORT SALES ALSO VARIES, WITH VOICE OF TRADING COMPANY MORE IMPORTANT THAN THAT OF MANUFACTURER IN SOME INSTANCES, LESS SO IN OTHERS. FOR EXAMPLE, JAPAN HAS BEEN TRADITIONAL SUPPLIER OF PAPER TO S.E. ASIAN COUNTRIES, AND TRADING COMPANIES HOPE TO CONTINUE AS "RELIABLE SUPPLIER". NO EVIDENCE AS YET OF GOJ INTERFERENCE IN QUESTION OF DOMESTIC VS. EXPORT.

7. COMMENT: ABOVE VIEWS SHOULD BE CONSIDERED ONLY PRELIMINARY ANALYSIS OF VERY CONFUSED SUPPLY SITUATION. THERE APPEARS GENERAL AGREEMENT THAT, EVEN AFTER RESUMPTION OF OIL FLOW, DRASTIC RE-STRUCTURING OF PRICES WILL CAUSE MARKED SHIFTS IN DEMAND LEVELS. MARKET ANALYSTS NOW LOOKING AT QUESTION OF DEMAND ELASTICITY, SUBSTITUTION POSSIBILITIES SOME PRODUCTS FOR FIRST TIME IN RECENT HISTORY. EMBASSY WILL CONTINUE REPORT AS SITUATION CRYSTALLIZES. SHOESMITH

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